

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

No. 03-CR-80474-DT

-vs-

HON. GERALD E. ROSEN

D-1 GARY L. MONROE,
D-2 WILLIAM J. RAUWERDINK, and
D-3 JOHN R. MESSINGER,

Defendants.

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INDICTMENT

THE GRAND JURY CHARGES:

GENERAL ALLEGATIONS

1. At all times relevant to this Indictment, LASON, INC. ("Lason") was a Delaware corporation with its headquarters in Troy, Michigan. Among other things, Lason was engaged in the business of information management, which primarily involved document and data capture, data management through electronic storage and retrieval, and the output of information digitally or in print. Lason had dozens of operating units located throughout the United States and in other countries, and served hundreds of business customers, including automobile manufacturers.

2. Defendant GARY L. MONROE joined Lason in September 1995, assuming

the positions of Executive Vice President and Director. He was the Chief Executive Officer (CEO) of Lason from February 1996 to July 2000, and the Chairman of Lason's Board of Directors from April 1998 to July 2000.

3. Defendant WILLIAM J. RAUWERDINK joined Lason in May 1996, assuming the positions of Executive Vice President and Chief Financial Officer (CFO). He remained in those positions until May 2000. He was a Director of Lason from approximately May 1999 to August 2000.

4. Defendant JOHN R. MESSINGER joined Lason in July 1997, assuming the positions of Executive Vice President and President of Lason's Imaging Services Group. He was the President and Chief Operating Officer (COO) of Lason from January 1999 to March 2001.

5. Robert T. Bassman joined Lason in September 1996, assuming the position of Assistant Controller. He was the Controller of Lason from early 1997 to October 2000.

6. In October 1996, Lason made its initial public offering (IPO) of common stock and became a publicly held company. Lason made additional public offerings of its common stock in August 1997 and August 1998. Lason's common stock was listed on the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System (under the symbol LSON), and traded "over the counter," from October 1996 to November 2000.

7. At all times relevant to this Indictment, the U.S. Securities and Exchange Commission (“Securities and Exchange Commission” or “SEC”) was a federal agency located within the executive branch of the government of the United States. The SEC administers federal laws relating to securities, mutual funds, brokers, dealers, investment advisers, and related subjects.

8. As the issuer of publicly traded stock, Lason was required to comply with federal securities statutes and rules and regulations promulgated by the SEC pursuant to those statutes. These laws were designed to protect members of the investing public and the integrity and efficiency of the national securities market by, among other things, requiring that all material financial information about an issuer of securities is accurately recorded and fairly presented and fully disclosed to the investing public.

9. Under federal securities laws, Lason had a duty to make and keep books, records, and accounts that fairly and accurately reflected Lason’s business transactions, and file with the SEC quarterly reports (Forms 10-Q) and annual reports (Forms 10-K) containing financial statements (including but not limited to balance sheets and statements of income) that conformed with Generally Accepted Accounting Principles (“GAAP”).

10. At all times relevant to this Indictment, each of Lason’s fiscal years began on January 1 and ended on December 31.

11. From 1996 through the end of 1999, Lason engaged in a business growth strategy of acquiring similar information management companies or companies in businesses believed to be complementary to Lason's. During this period, Lason purchased all or substantially all of the assets of, or a controlling stock interest in, more than 60 companies in the United States as well as other countries.

11.A. Lason's business acquisitions in this period were primarily funded by a line of credit provided by a consortium of banks, initially led by First Union National Bank and subsequently led by Bank One, Michigan and Comerica Bank.

12. Lason's growth-by-acquisition strategy was a failure: the cost of acquiring other companies was huge; little effort went into the task of successfully integrating the operations of the acquired companies into Lason's operations; economies of scale and operational synergies were not achieved; and Lason's increasing size was not accompanied by any corresponding increase in Lason's overall efficiency, productivity, or profitability.

THE SCHEME TO DEFRAUD

13. From approximately 1997 until early 2000, several Lason officers and employees knowingly devised, executed, and participated in a scheme to defraud and to obtain money by means of materially false and fraudulent pretenses, representations, and promises.

14. It was a part of the scheme that Lason would make materially false representations in its financial statements to manipulate and increase its reported earnings per share. It did so principally, but not exclusively, through an accounting practice referred to at Lason as “Tailwind” and through the fabrication of “WIP,” a component of Lason’s revenue.

! “Tailwind” was created in connection with Lason’s acquisition (i.e., purchase) of smaller, privately held companies (which were not required to file with the SEC or otherwise make public their financial statements) and involved fraudulent accounting practices that violated GAAP. Those practices are described as follows: some of the revenues earned by the acquired company prior to its acquisition by Lason were shifted into the period following the acquisition and reported as the revenues of Lason even though they were the pre-acquisition revenues of the acquired company; some of the expenses incurred by Lason following the acquisition were shifted to the period preceding the acquisition and not reported as the post-acquisition expenses of Lason even though they were; and some revenues and expenses were improperly recognized or classified in Lason’s accounting records. The Tailwind fraud boosted Lason’s reported revenues and lowered Lason’s reported expenses, which resulted in a higher reported net income, or earnings, and thus a higher reported earnings per share. All of this this was reflected on Lason’s statements of income. The Tailwind fraud also had the effect of boosting Lason’s accounts receivable (an asset) and lowering its accounts payable (a

liability), thereby improving its balance sheet and increasing its stockholders' equity.

- ! One of Lason's revenue items was "work-in-process" (sometimes referred to as "work-in-progress"), or WIP. Lason would regularly fabricate, or make up, WIP numbers, which were added to and thereby fraudulently inflated its reported revenues. This, in turn, resulted in a higher reported net income, or earnings, and thus a higher reported earnings per share. All of this was reflected on Lason's statements of income. The WIP fraud also had the effect of boosting Lason's accounts receivable (an asset), thereby improving its balance sheet and increasing its stockholders' equity.

15. It was also a part of the scheme that the accounting fraud described above in ¶14 would be directed, supervised, managed, carried out, aided and abetted, and otherwise participated in by GARY L. MONROE, WILLIAM J. RAUWERDINK, and JOHN R. MESSINGER, among others.

16. It was also a part of the scheme that Lason would include its materially false financial statements in periodic reports (Forms 10-Q and 10-K) and other documents filed with the SEC; in its annual reports, which were mailed and otherwise distributed to Lason's shareholders, among others; and in materials provided to financial institutions from which Lason had obtained or was seeking lines of credit or other credit facilities.

17. It was also a part of the scheme that, through press releases, statements by its executive officers, and other means, Lason would disseminate materially false information about its financial condition to deceive professionals in the securities industry, such as stock analysts and broker-dealers; Lason shareholders; the investing public; and others about Lason's true financial condition, which was materially and significantly worse than represented by Lason.

18. It was also a part of the scheme that the accounting fraud described above in ¶ 14 would inflate Lason's reported earnings per share to a point where it would meet or slightly exceed the earnings per share estimates of stock analysts familiar with Lason based on, among other things, the statements and representations of GARY L. MONROE and WILLIAM J. RAUWERDINK. The analysts' estimates were reduced to a consensus estimate by Thomson Financial/First Call and published on a quarterly basis.

19. It was also a part of the scheme that in causing its earnings per share figures to meet or exceed the estimates of stock analysts, Lason would bring about or make more likely the occurrence of the following events: (1) the price per share of Lason common stock would constantly increase, making the stock more attractive to the investing public and more valuable to Lason, which used the stock as a means of paying for the companies it acquired; (2) the value of the Lason stock and stock options held by GARY L. MONROE, WILLIAM J. RAUWERDINK, JOHN R. MESSINGER, and

others Lason officers would substantially appreciate, and (3) institutional lenders would regard Lason as a highly creditworthy company. Failing to meet the consensus estimates would have caused or made more likely the occurrence of these events: (1) the share price of Lason stock would drop; (2) the value of the Lason stock and stock options held by Lason executives would substantially decrease; and (3) Lason's creditworthiness would be substantially impaired, resulting in higher borrowing costs.

20. It was also a part of the scheme that GARY L. MONROE and WILLIAM J. RAUWERDINK would exercise stock options and sell Lason stock, realizing a substantial gain.

21. It was also a part of the scheme that the accounting fraud described above in ¶ 14 would allow Lason to remain an ongoing business entity and enable GARY L. MONROE, WILLIAM J. RAUWERDINK, and JOHN R. MESSINGER to receive and continue to receive generous salaries, bonuses, stock options, low interest loans, and other fringe benefits from Lason.

22. It was also a part of the scheme that Lason would withhold accurate information from and otherwise conceal its accounting fraud from its independent auditor.

CRIMINAL CHARGES

COUNT ONE

(Conspiracy – 18 U.S.C. § 371)

D-1 GARY L. MONROE
D-2 WILLIAM J. RAUWERDINK
D-3 JOHN R. MESSINGER

The Conspiracy

23. From approximately 1997 until early 2000, in the Eastern District of Michigan, Southern Division, and elsewhere, **GARY L. MONROE, WILLIAM J. RAUWERDINK, and JOHN R. MESSINGER**, defendants herein, and others, did knowingly agree and conspire to

devise, execute, and participate in a scheme to defraud and to obtain money by means of materially false and fraudulent pretenses, representations, and promises that (1) was furthered by the use of the U.S. Mail and (2) was furthered by the use of interstate telephone calls, e-mails, and faxes, all of which would have been conduct constituting the federal crimes of mail fraud (18 U.S.C. § 1341) and wire fraud (18 U.S.C. § 1343), and

prepare, file, and caused to be filed with the Securities and Exchange Commission certain forms and reports that contained false and fraudulent statements and representations, and omitted material facts, concerning the financial condition of Lason, all of which would have been conduct constituting the federal crime of making false statements in a matter within the jurisdiction of a federal executive agency (18 U.S.C. § 1001).

Manner and Means of the Conspiracy

24. The manner and means of the conspiracy are set forth above in ¶¶ 13-22, which are hereby realleged and incorporated by reference.

Overt Acts

25. The following overt acts were committed by members of the conspiracy during and in furtherance of the conspiracy:

26. On or about March 5, 1998, Lason acquired American Presort, Inc., based in New York City. In the days prior to the acquisition, defendants GARY L. MONROE and WILLIAM J. RAUWERDINK requested American Presort officers to create Tailwind for Lason.

27. On or about May 14, 1998, WILLIAM J. RAUWERDINK, signed Lason's Form 10-Q (quarterly report) for the 1st quarter of 1998 (the quarter ending March 31, 1998) as Lason's Chief Financial Officer.

28. In the period April to June 1998, JOHN R. MESSINGER discussed Tailwind in the office of the Vice President for Finance of Consolidated Reprographics, Inc.

29. In July 1998, Lason acquired Consolidated Reprographics, Inc. ("CR"), based in Irvine, California. Just prior to the closing of the acquisition, GARY L. MONROE requested CR officers to create Tailwind for Lason.

30. On or about August 14, 1998, WILLIAM J. RAUWERDINK signed Lason's

Form 10-Q (quarterly report) for the 2nd quarter of 1998 (the quarter ending June 30, 1998) as Lason's Chief Financial Officer.

31. On or about November 13, 1998, defendant WILLIAM J. RAUWERDINK, signed Lason's Form 10-Q (quarterly report) for the 3rd quarter of 1998 (the quarter ending September 30, 1998) as Lason's Chief Financial Officer.

32. In November 1998, Lason acquired Digital Imaging & Technologies, Inc. ("DIT"), based in Anaheim, California. Just prior to the closing of the acquisition, GARY L. MONROE requested DIT officers to create Tailwind for Lason.

33. On or about March 31, 1999, GARY L. MONROE and WILLIAM J. RAUWERDINK signed Lason's Form 10-K (annual report) for the fiscal year ending December 31, 1998. MONROE signed as Lason's Chief Executive Officer and Chairman of the Board, and RAUWERDINK signed as Lason's Chief Financial Officer.

All in violation of Section 371 of Title 18 of the United States Code.

COUNT TWO

(False Statements to a Federal Agency – 18 U.S.C. § 1001)

D-1 GARY L. MONROE

D-2 WILLIAM J. RAUWERDINK

34. On or about May 15, 1998, in the Eastern District of Michigan, Southern Division, **GARY L. MONROE** and **WILLIAM J. RAUWERDINK**, defendants herein, did, in

a matter within the jurisdiction of the Securities and Exchange Commission, knowingly and willfully make, cause to be made, and aid and abet in the making of materially false and fraudulent statements and representations in Lason's Form 10-Q (quarterly report) for the quarter ending March 31, 1998, all in violation of Sections 1001 and 2 of Title 18 of the United States Code.

THIS IS A TRUE BILL.

 / S /
Foreperson

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Date: May 13, 2003